

**REPORT OF THE AUDIT OF THE
MADISON COUNTY
CLERK**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MADISON COUNTY CLERK

For The Year Ended
December 31, 2008

The Auditor of Public Accounts has completed the Madison County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Madison County Clerk had total receipts of \$19,335,604, which was a \$749,148 decrease from the prior year. Except for reimbursed expenses in the amount of \$23,628, the clerk paid 25% of receipts to the Madison County Fiscal Court in the amount of \$441,214. This was a decrease of \$52,922 from the prior year. In addition, disbursements decreased by \$139,977.

Lease Agreements:

Lease agreements totaled \$552,901 as of December 31, 2008. Future principal and interest payments of \$552,901 are needed to meet these obligations.

Report Comments:

- 2008-01 The County Clerk Should Not Alter Public Records In Order To Renew Motor Vehicle Registrations That Have Delinquent Taxes
- 2008-02 The County Clerk Should Ensure His Personal Registration Is Accounted For Properly And Should Not Override Established Internal Controls
- 2008-03 The County Clerk Should Ensure Passwords And Computers Are Secured At All Times
- 2008-04 The County Clerk Should Ensure Payroll Is Properly Documented, Reviewed, And Accounted For
- 2008-05 The County Clerk Should Issue And Account For Receipts For Copies
- 2008-06 The County Clerk Should Only Expend Funds For Allowable Purchases
- 2008-07 The County Clerk Should Improve Procedures Over The Imprest Cash Account

Deposits:

The County Clerk's deposits as of May 31, 2008, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$195,824

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2008. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above presents fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2009 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01 The County Clerk Should Not Alter Public Records In Order To Renew Motor Vehicle Registrations That Have Delinquent Taxes
- 2008-02 The County Clerk Should Ensure His Personal Registration Is Accounted For Properly And Should Not Override Established Internal Controls
- 2008-03 The County Clerk Should Ensure Passwords And Computers Are Secured At All Times
- 2008-04 The County Clerk Should Ensure Payroll Is Properly Documented, Reviewed, And Accounted For
- 2008-05 The County Clerk Should Issue And Account For Receipts For Copies
- 2008-06 The County Clerk Should Only Expend Funds For Allowable Purchases
- 2008-07 The County Clerk Should Improve Procedures Over The Imprest Cash Account

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 28, 2009

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Fees For Services	\$	2,324
Fiscal Court		600
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	2,375,128
Usage Tax		8,586,096
Tangible Personal Property Tax		6,167,480
Notary Fee		18,866
Other-		
Fish and Game Licenses		6,637
Marriage Licenses		21,300
Occupational Licenses		25
Miscellaneous		2,211
Deed Transfer Tax		268,042
Delinquent Taxes		1,286,444
		18,732,229
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		39,961
Real Estate Mortgages		131,384
Chattel Mortgages and Financing Statements		190,805
Powers of Attorney		91,932
All Other Recordings		81,224
Charges for Other Services-		
Candidate Filing Fees		1,590
Copywork		23,644
		560,540
Other:		
Refunds & Overpayments		32,522
Transfer of Funds		2,622
Miscellaneous		249
		35,393
Interest Earned		4,518
Total Revenues		19,335,604

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	1,603,777	
Usage Tax		8,328,210	
Tangible Personal Property Tax		2,116,622	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		6,389	
Delinquent Tax		210,789	
Legal Process Tax		68,678	
Miscellaneous		91,932	\$ 12,426,397

Payments to Fiscal Court:

Tangible Personal Property Tax		417,853	
Delinquent Tax		86,018	
Deed Transfer Tax		254,639	758,510

Payments to Other Districts:

Tangible Personal Property Tax		3,344,581	
Delinquent Tax		654,540	3,999,121

Payments to Sheriff

4,886

Payments to County Attorney

186,997

Operating Expenditures:

Refunds		91,883	
Bank Charges		603	92,486

Total Expenditures

\$ 17,468,397

Net Revenues

1,867,207

Payments to State Treasurer:

75% Operating Fund		1,347,267	
25% County Fund		441,214	1,788,481

Balance Due at Completion of Audit

\$ 78,726

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2008

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2008	\$ (317,140)	\$	\$ (317,140)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,347,267		1,347,267
Fees Paid to State - County Funds (25%)		441,214	441,214
Total Funds Available	1,030,127	441,214	1,471,341
<u>Expenditures</u>			
Payments to Madison County Fiscal Court		441,214	441,214
Personal Services-			
County Clerk's Statutory Maximum	95,169		95,169
County Clerk's Expense Allowance	3,600		3,600
County Clerk's Training Incentive	6,911		6,911
Deputies Salaries	891,280		891,280
Employee Benefits-			
Employer's Share Social Security	69,463		69,463
Employer's Share Retirement	146,767		146,767
Employer's Paid Health Insurance	103,020		103,020
Other Payroll Disbursements	3,172		3,172
Contracted Services-			
Copy Machine And Maintenance	11,364		11,364
Miscellaneous Equipment Agreements	31,302		31,302
Supplies and Materials-			
Office Supplies	19,950		19,950
Miscellaneous Office Expense	32,292		32,292

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

	75%	25%	
	Operating	County	Totals
	Fund	Fund	
<u>Expenditures</u> (Continued):			
Other Charges-			
Conventions and Travel	\$ 8,743	\$	\$ 8,743
Postage	1,959		1,959
Election	5,237		5,237
Bond	1,776		1,776
Books and Maps	18,144		18,144
Maintenance and Repairs	2,443		2,443
Office Equipment	195		195
Miscellaneous	2,862		2,862
Capital Outlay-			
Office Furnishings	1,132		1,132
Camera System	6,104		6,104
Copier	2,090		2,090
Plat Cabinet	8,044		8,044
Debt Service:			
Computer Equipment & Software	206,658		206,658
Total Expenditures	<u>1,679,677</u>	<u>441,214</u>	<u>2,120,891</u>
Less: Disallowed Expenditures	<u>(212)</u>		<u>(212)</u>
Total Allowable Expenditures	<u>1,679,465</u>	<u>441,214</u>	<u>2,120,679</u>
Fund Balance - December 31, 2008	<u>\$ (649,338)</u>	<u>\$ 0</u>	<u>\$ (649,338)</u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2008

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of May 31, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uninsured and Unsecured \$195,824

Note 4. Leases

- A. The Office of the County Clerk was committed to a lease agreement with Software Management for hardware and software. The agreement requires a monthly payment of \$14,692 for 60 months to be completed in February 2012. The total remaining balance of the agreement was \$543,604 as of December 31, 2008.
- B. The Office of the County Clerk was committed to a lease agreement with Pitney Bowes for a postage machine and related equipment. The agreement requires a monthly payment of \$827 to be completed in December 2009. The total remaining balance of the agreement was \$9,297 as of December 31, 2008.

Note 5. 75% Operating Fund – Deficit Balance

The Madison County Clerk's 75% operating fund had a deficit balance of \$649,338 as of December 31, 2008. KRS 64.345(4) states, "If seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his/her office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his/her term." The 75% operating fund has to be settled at the end of the Clerk's term, which ends December 31, 2010.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Madison County Clerk for the year ended December 31, 2008, and have issued our report thereon dated August 28, 2009. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Madison County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Madison County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-06, and 2008-07 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies listed as items 2008-01, 2008-02, 2008-03, and 2008-04 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Clerk's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are included in the accompanying comments and recommendations as items 2008-01, 2008-04, and 2008-05.

The Madison County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Madison County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 28, 2009

COMMENTS AND RECOMMENDATIONS

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

FINDINGS - FINANCIAL STATEMENT AUDIT

2008-01 The County Clerk Should Not Alter Public Records In Order To Renew Motor Vehicle Registrations That Have Delinquent Taxes

During our audit we found the following items pertaining to the renewal of registrations:

- A customer came in to renew a motor vehicle registration. The customer, however, had delinquent motor vehicle tax liens on other vehicles, and would not be able to renew the registration because of the delinquencies. The customer talked to the County Clerk and explained they did not have the funds to pay the delinquent taxes. The County Clerk instructed a deputy clerk to manipulate/change the social security number on this record, therefore removing the issue of delinquent taxes, because the altered social security number was no longer associated with the customer and the delinquent taxes. The customer paid the taxes on the vehicle and the County Clerk subsequently instructed the deputy clerk to change the social security number back.
- On another occasion, a relative of the County Clerk came in to renew their registration. The relative, however, had a delinquent motor vehicle tax lien on another vehicle registered under their social security number. In order for the relative to renew this vehicle, their social security number was manipulated/changed, again removing the issue of the delinquent taxes, because the altered social security number was no longer associated with this person and the tax delinquencies. The County Clerk's relative paid the taxes on the vehicle and the social security number was changed back.

The County Clerk should never intentionally alter public records in order to override the controls in place, and allow someone with delinquent taxes to renew their registration, without first paying the delinquent taxes owed. KRS 186.021(1) states, "a county clerk shall not issue a replacement plate, decal, or registration certificate...or a registration for renewal to any person who on January 1 of any year owned a vehicle on which...ad valorem taxes are delinquent."

We recommend the County Clerk stop altering motor vehicle records in order to override the existing controls and ensure no renewal of registration is completed until all delinquent taxes associated with it are paid as required by KRS 186.021. We will refer this matter to the appropriate agencies for further investigation.

County Clerk's Response: This is not a general practice, however at the Clerk's discretion, may be deemed necessary, but must have his prior approval.

Auditor's Reply: As stated in our recommendation above, the County Clerk should never alter motor vehicle records in order to override the existing controls. Also, no renewal of registration should be completed until all delinquent taxes associated with it are paid, as required by KRS 186.021.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2008-02 The County Clerk Should Ensure His Personal Registration Is Accounted For Properly
And Should Not Override Established Internal Controls

During our audit we found the County Clerk used a passenger decal on his personal vehicle from July 2008 through January 2009 without renewing his registration and paying for the decal. On January 6, 2009, he renewed his registration and paid. However, even though the registration was delinquent, he had the deputy clerk waive the penalty and interest, which should have been charged on these delinquent taxes. While the County Clerk has internal controls in place to ensure all decals are accounted for and the correct fees are charged, management chose to override these controls. Having the County Clerk override the internal controls in place personally, creates an atmosphere in the office that the controls can be circumvented at will, and could lead to others trying to do the same. We recommend the County Clerk never override the internal controls that are in place and ensure in future years his personal registration is properly accounted for.

County Clerk's Response: Due to excess mileage of the vehicle, the clerk inquired to PVA of excessive value. Original amount was paid, even though it was \$12,000 over NADA book.

2008-03 The County Clerk Should Ensure Passwords And Computers Are Secured At All Times

During our audit, we noted passwords and computers were not secure at all times. Once logged in, the deputies' computers would not be logged out or shut down all day and even overnight. This could allow unauthorized access to any deputies' computers and allow others to conduct transactions on computers that were not their own. Also, the County Clerk would ask deputies for their passwords when his had expired or he was locked out in order to obtain access to the system. Passwords should not be shared and computers should be secured at all times. We recommend the County Clerk ensure computers are always secured by employees logging off or shutting down their computers when they are not in use or when deputies are not there. We also recommend the clerk and deputies never share their passwords.

County Clerk's Response: All computers are password protected.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2008-04 The County Clerk Should Ensure Payroll Is Properly Documented, Reviewed, And Accounted For

During our audit we found the following items pertaining to payroll:

- Employees did not sign timecards and supervisors/County Clerk did not document their review/approval
- Documented overtime on time cards was not paid
- Adjustments to timecards were not properly approved by management
- Timecards did not accurately reflect time worked

Good internal controls dictate the County Clerk provides guidance on consistent and proper completion of time records. It also dictates that proper approval and review of timesheets should be documented. KRS 337.285 (1) states, "No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed".

We recommend the county clerk ensure all timecards are signed by employees and supervisors/county clerk, timecards reflect actual hours worked each day, any adjustments to timecards are approved, and overtime is paid to eligible employees. We also recommend the county clerk review all positions to determine if they are exempt/nonexempt classifications to ensure compliance with overtime requirements.

County Clerk's Response: All time cards have been reviewed in the past; however we will now require the employees and reviewers signatures.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2008-05 The County Clerk Should Issue And Account For Receipts For Copies

During the course of our audit, we noted the County Clerk did not issue receipts for all funds received for copies in accordance with KRS 64.840. These funds also were not accounted for properly. Receipts were only issued for copies when requested by the customer. The money received for the copies was put in the cash drawer, however it was not recorded in the computerized accounting software. At the end of the day, deputies would print the daily receipts amount and deposit only the amount noted on the printout. Since copies were not recorded for that day, these funds were not deposited with that day's receipts and left unaccounted for in the cash drawer. Every few days the clerk would reconcile the cash drawer and the amount over the change fund would then be recorded as copy funds and deposited. The auditors conducted a surprise cash count and found the cash drawer to be over approximately \$38 for the day.

Not properly issuing receipts, recording, accounting for, and depositing these funds could lead to these funds being misappropriated, lost, or stolen due to the clerk not knowing the correct amount of funds on hand. KRS 64.840 states, "all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer." Additionally, KRS 68.210 requires that daily deposits be made.

We recommend the County Clerk issue receipts for all funds as required by KRS 64.840, make daily deposits of all funds as required by KRS 68.210, and properly account for all funds through the accounting system.

County Clerk's Response: This practice was changed immediately.

2008-06 The Clerk Should Only Expend Funds For Allowable Purchases

During our review of expenditures, we noted the Clerk expensed public funds for the purchase of a studio sitting and self-photo to be framed and hung within the Madison County Courthouse for \$198. Also, the clerk did not use his tax-exempt status on the purchase of goods and services causing \$14 not to be reimbursed on his imprest account. In Funk v. Milliken, 317 S.W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee official's expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Since the framed photograph is not anticipated to be a permanent fixture within the courthouse, we recommend the County Clerk reimburse the fee account \$198 from personal funds for the disallowed expenditure. The clerk should also reimburse the \$14, due to disallowed sales tax, from personal funds.

County Clerk's Response: Previous photo and frame were paid from the same account and were never questioned in the audit. This expense also went through County Fees and was not questioned at all. Why would the replacement photo now be in question?

Auditor's Reply: An audit consists of testing expenditures on a sample basis, not 100% testing. Therefore the prior year purchase may not have been selected for testing in the prior year.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2008-07 The County Clerk Should Improve Procedures Over The Imprest Cash Account

During our audit, we noted the following items pertaining to the imprest cash account:

- Requests for reimbursement were not submitted to the State on a routine basis in order to maintain a consistent balance within the account. We noted instances where purchases made in August 2008 were not submitted for reimbursement until November 2008. As outlined in the Finance and Administration Cabinet's Financial Operations Manual for Counties with population over 70,000, the petty cash fund should be replenished once a month.
- The County Clerk's office tax-exempt status was not always utilized in the purchase of goods and services for the office.
- Two (2) payments where no itemized receipt was maintained; one at Ace Hardware for \$95; and one at Holiday Inn for the Clerk's Convention for \$337. Although a credit card slip or receipt was provided, itemized documentation was not available for review, which specifically details individual items purchased and charges incurred.
- Monthly bank reconciliations were not being prepared or were not prepared correctly. In November 2008 three (3) transfers out were made totaling \$838 in order to correct a debit made to the wrong account. Further investigation identified the bank incorrectly transferred funds from the imprest cash account instead of the 2008 general fund. This error went undetected until the time of the audit in July 2009. Timely and accurate bank reconciliations would have detected this sooner.
- Since the County Clerk handles all aspects of the imprest account (receipts, disbursements, reporting, and reconciliation), there is a lack of adequate segregation of duties over this account.

We recommend the County Clerk submit replenishment vouchers monthly as required, always utilize the office's tax-exempt status for purchases, maintain proper documentation for expenditures, and ensure bank reconciliations are completed correctly and in a timely manner. We also recommend the County Clerk implement compensating controls over the imprest cash account, for example have someone other than the County Clerk reconcile the account or review and document their review of cash receipt and disbursement ledgers and reconciliations.

County Clerk's Response: This account is only used for a few minimal expenses. All expenses are reviewed by County Fees and would not be paid without receipts.

